LEGISLATIVE SERVICES AGENCY
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FISCAL IMPACT STATEMENT

LS 7350 | **NOTE PREPARED:** Jan 20, 2009
BILL NUMBER: HB 1448 | **BILL AMENDED:**

SUBJECT: Indiana Long-Term Care Savings Plan.

FIRST AUTHOR: Rep. Welch | **BILL STATUS:** As Introduced
FIRST SPONSOR:

FUNDS AFFECTED: X **GENERAL** | **IMPACT:** State & Local
DEDICATED
FEDERAL

Summary of Legislation: This bill establishes a Long-term Care Savings Plan for a participant to fund an account to pay eligible long-term care expenses of the participant. The bill authorizes the board of trustees of the Public Employees' Retirement Fund (PERF) to administer the plan or enter into agreements with financial institutions to receive participant contributions in the form of account deposits. The bill limits plan contributions to $165,000 during a participant's lifetime and indexes the limitation for inflation.

The bill provides a state Income Tax deduction of $1,000 for an individual and $2,000 for a joint return for contributions to the plan in a taxable year. It also provides that qualified withdrawals from the plan to pay eligible long-term care expenses are exempt from state income tax, and nonqualified withdrawals are subject to a 10% penalty and state income tax on the amount withdrawn.

The bill establishes a Long-term Care Savings Plan Trust administered and managed by the PERF Board to invest participants' contributions to the plan. It provides that the Plan and the Trust are not obligations of the state.

Effective Date: July 1, 2009.

Explanation of State Expenditures: *Department of State Revenue (DOR)*- The DOR would incur some administrative expenses relating to the revision of tax forms, instructions, and computer programs to incorporate this deduction. The DOR's existing budget and resources should be sufficient to implement this provision.

Public Employees' Retirement Fund (PERF): PERF is to administer the Long-Term Care Savings Plan for individuals and would encounter start-up and ongoing costs. The administrative costs of the Plan are to be paid from the earnings of the Plan before the earnings are credited to participants' accounts.

Future Medicaid Expenditures: To the extent that the deduction encourages purchases of long-term care insurance or savings specifically for long-term care expenses that would not have occurred otherwise, there is some potential for a reduction in future Medicaid expenditures.

Explanation of State Revenues: *Summary-* The bill could reduce state Adjusted Gross Income (AGI) Tax liabilities of individual taxpayers for contributions to a Long-term Care Savings Plan. This bill provides a deduction from AGI of up to $1,000 annually for a single or separate filer and $2,000 annually for a joint filer for contributions to a Plan by the taxpayer. Based on the 3.4% tax rate, the deduction would reduce AGI Tax revenue by a maximum of $34 per year for a single or separate filer or $68 per year for a joint filer. If 1,000 filers claim the maximum deduction, the revenue loss could range from $34,000 to $68,000 depending upon the distribution of single/separate filers and joint filers claiming the deduction. The total number of individuals who might claim the deduction is unknown.

Since the deduction is effective beginning in tax year 2010, the fiscal impact would begin in FY 2011. Revenue from the AGI Tax on individuals is deposited in the state General Fund.

Background Information- This bill allows individuals to establish a Long-term Care Savings Plan to be administered by the state. Contributions to the Plan are deductible from the individual's AGI, up to a maximum of $1,000 per year for single or separate filers and $2,000 per year for joint filers. The maximum lifetime contribution for a participant is $165,000, which will be adjusted for inflation.

Qualified withdrawals for which a withdrawal and earnings will not be subject to state taxes or a 10% penalty include withdrawals made (1) to pay for eligible long-term care expenses, (2) because of the death or disability of the participant, or (3) to transfer a participant's account to the participant's spouse. Eligible long-term care expenses include an expense paid by a participant for long-term care provided to the participant or a premium paid by a participant who is at least 50 years of age for a qualified long-term care insurance policy. Qualified long-term care insurance policies are those policies approved by the Indiana Long-Term Care Program (Partnership polices).

The level of future contributions to Long-term Care Savings Plans is unknown, largely due to lack of information on how taxpayers will view these Plans relative to other savings, investment, and insurance alternatives available to the taxpayers. Other alternatives include (1) conventional IRA and 401(k) plans which are subject to favorable state *and* federal tax treatment and have different restrictions on the use of the funds upon withdrawal, and (2) conventional and Partnership long-term care insurance. (Current statute provides a state income tax deduction for premiums paid for Partnership policies.)

Explanation of Local Expenditures:

Explanation of Local Revenues: Because the proposed deduction would serve to decrease taxable income, counties imposing local option income taxes may, as a result, experience an indeterminable decrease in revenue from these taxes.

State Agencies Affected: DOR; PERF.

Local Agencies Affected: Counties with local option income taxes.

Information Sources:

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